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Global Agricultural Information Network

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## China - Peoples Republic of

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**U.S. Pork Exports to China on the Rise**

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Livestock and Products

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### **Report Highlights:**

U.S. exports of pork and pork variety meats to China have grown rapidly since summer 2010 and are expected to continue rising through 2011. Following China's lifting of its H1N1 ban on U.S. pork in May 2010, the United States quickly returned as China's top source for imported pork. Further sales gains this year will be supported by weak local pork production and strong consumer demand.

## General Information:

### U.S. pork exports to China surge fueled by weak local production and rising demand

Fueled by a strong economy and consumer demand, along with a continued slide in Chinese pork production, U.S. exports of pork and pork variety meats to China have grown rapidly since summer 2010 and are expected to continue rising through 2011. These sales jumped to more than 10,000 metric tons per month beginning in July 2010 and have continued at or above this level into the first quarter of 2011. Overall, U.S. exports to China reached 192,500 metric tons (valued at \$169 million) in the eight -month period ending February 2011. Exports to Hong Kong (most of which are re-exported to China) added another 63,600 tons (\$92 million) to this total. Traders expect sales to continue at or above this pace at least through the summer and possibly into next year due to a continued expected shortage in local supplies.

### U.S. returns as China's top pork supplier

Following China's lifting of its H1N1 ban on U.S. pork in May 2010, the United States quickly returned as China's top source for imported pork. So far in 2011, the U.S. has accounted for 59 percent of China's pork and pork product imports. Prior to China's lifting of its U.S. pork ban, the EU provided nearly 80 percent of China's imports with Canada accounting for most of the remainder. The U.S. is expected to continue as China's top supplier as Chinese importers report pricing and availability for U.S. pork is generally favorable over alternative sources.

Source: China Customs and Ministry of Agriculture. Imports are from all sources and include variety meats



## **China pork production slowly recovering from low prices and disease in 2010**

Weak prices in the first half of 2010, followed by serious outbreaks of foot and mouth disease (FMD) and diarrhea, resulted in sharp herd reductions among some backyard operators with reports of many quitting pig farming. FAS/Beijing has been told the 2010 FMD strain was not detected previously and is only recently being brought under control. The new virus strain was reportedly Burma 98. It is air spread within 25 km. Some farmers reportedly used vaccines for other types of FMD to control Burma 98 with unsatisfactory results, resulting in a spread of the disease to numerous provinces in 2010. Culling was extensive in some areas. For example, contacts in Xinjiang report that 100,000 pigs were culled in Kashgar alone. Contacts report that a new vaccine for Burma 98 virus strain was introduced early this year by the China FMD Reference Lab in Lanzhou and the early results look promising. Meanwhile, the 2010 diarrhea epidemic was particularly serious in southern China in the winter, which affected piglet survival. The impacts of this disease are reportedly diminishing as the weather continues to warm.

With the resultant lower hog inventory and continued strong consumer pork demand, live hog prices have surged from under 10 rmb (\$1.53) per kilogram in August 2010 to 14.7 rmb (\$2.26) per kilogram in the month of March 2011. The Ministry of Agriculture statistics report China's hog inventory slid to 445 million head in February 2011, down 2.7 percent from the same period last year, while China's sow inventory has fallen to 47.4 million head, down 3.3 percent from the same month in 2010. Anecdotal evidence suggests these numbers are likely significantly lower. Hog producers in Henan and Shandong Provinces are reporting the number of fattened pigs ready for slaughter is 20 percent below the same period in 2010. These producers believe this number will gradually improve over the next six months.

The expectation that prices will continue at a high level has encouraged herd expansion in 2011. With strong demand for piglets and tight supplies, piglet prices have reached three-year highs, up 50 percent so far in 2011 to 28 rmb (\$4.31) per kilogram in March. However, analysts and traders believe China's expansion could take up to two years before inventories reach levels achieved in early 2010. Expansion among backyard operators will be slow as rising wages for migrant workers in China's medium and large-sized cities continue to dampen interest in small-scale pig farming. A shortage of factory workers has reportedly topped two million in the Pearl River Delta alone, driving wages higher nationwide. Small-scale operators are also being discouraged by fears of animal disease and high costs of feed. Corn prices in China are over 2100 rmb (\$323) per ton, up 12 percent from the same month last year.

## **Traders report brisk sales despite higher pork prices**

Retail pork prices are highest they have been since summer 2008, when pork prices nearly doubled following a serious outbreak of blue ear disease in 2007. The strong market is being fueled by continued double-digit gains in China's economy. Despite attempts by the Chinese leadership to cool the economy, GDP growth in the first quarter of 2011 reached 9.7 percent and near double-digit growth is likely for the remainder of 2011. Bolstered by abundant supply and competitive prices, U.S. variety meats have enjoyed particularly strong demand in China and this will continue through 2011. Traders report the majority of imports from the U.S. are feet, head

meat (ears, lips, cheek), and offals. Nearly all these products are used in sausage manufacturing and other processed meats.

### **Clenbuterol findings have not impacted China pork sales so far**

In late March, CCTV broadcast an investigative report of hogs being fed with the banned steroid clenbuterol and purchased by Shuanghui, China's largest processed pork producer. The report sparked a recall of Shuanghui products, along with widespread follow-up media coverage of the clenbuterol problem and a reported crackdown on clenbuterol dealers nationwide. There have been a number of cases in the past decade of illness and fatalities caused by consuming pork with clenbuterol residues. However there were no reports of illness from consuming Shuanghui pork associated with the current findings and retailers report little or no impact on pork sales following the media reports.

There is a long history of reported clenbuterol use among China's pig producers and eliminating the practice remains a difficult challenge for Ministry of Agriculture regulators who are responsible for feed safety.

Reportedly, the steroid is especially prevalent among smaller-scale operators to create a leaner carcass to meet consumer preference for lean pork cuts. The premium for lean carcasses is typically higher when market prices are strong, offsetting the cost of clenbuterol and increasing farmer incentive to skirt the rules and add the substance to feed rations.

### **China opens to pork from Brazil**

As China's demand for pork imports continues to rise, China recently expanded its sources of supply by opening to pork from Brazil. This market opening will begin with three pork facilities, with additional facilities added over time. China and Brazil are now finalizing certification requirements and shipments are expected to commence in the 3<sup>rd</sup> quarter of 2011. Brazil is expected to become a significant competitor in the Chinese pork market as China seeks to diversify its overseas sources beyond the currently approved suppliers (Canada, the EU, and the United States).